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RUEATRS/DEPT OF TREASURY WASHDC 0398

C O N F I D E N T I A L LILONGWE 001058

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STATE FOR AF/S JEANNE MALONEY  
TREASURY FOR INTERNATIONAL AFFAIRS/AFRICA/BEN CUSHMAN  
STATE FOR EB/IFD/ODF LINDA SPECHT AND ELAINE JONES  
STATE PLEASE PASS TO MCC FOR KEVIN SABA  
PARIS FOR D'ELIA  
JOHANNESBURG FOR FCS

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SUBJECT: MALAWI TELECOM BOARD HOLDS UP PRIVATIZATION

REF: LILONGWE 1043

Classified By: Econoff W. Taliaferro for reasons 1.4b/d

11. (SBU) At what should have been a largely pro-forma meeting on 15 December, the board of Malawi Telecommunications Ltd. (MTL) voted down a proposal to privatize itself. The GOM, its sole shareholder, signed the deal on 14 December, together with all the other interested parties. Although MTL's board had opposed the deal for some time, the new board, meeting yesterday for the first time, surprised everyone by refusing to accept the sale.

2, (C) This development is puzzling at best: why would the new board, appointed by the Office of the President and Cabinet, directly defy the GOM's position on the privatization? One explanation, offered by a World Bank negotiator on the deal, is that the new board was co-opted by Minister of Information and Tourism Patricia Kaliati, an opponent of the privatization. As reported earlier (reftel), Kaliati is alleged by another reliable source to have been supplied by the previous MTL board with an automobile for her personal use for the past five months. It is not clear, however, that Kaliati has any material leverage to induce the board to defy the President.

13. (SBU) Though corruption is always a possibility, it may be simply that the board members oppose the deal as a matter of conscience, especially since the MTL management has long taken the position that the company was grossly undervalued and that staff retrenchments have not been adequately addressed-- an eccentric perspective perhaps, but not implausible. In view of the GOM's approval of the sale, the board's position leaves it open to legal action for poor corporate governance (i.e., acting in the interest of its employees and management rather than its shareholders). To pursue that angle, the other parties are meeting the board today, with lawyers in tow.

14. (C) Neither the main buyer nor the World Bank seems to regard the delay as threatening, unless the administration's political opponents get stirred up about the deal. World Bank country manager told Charge on December 18 that the president "wants MTL off the table" and predicted that the GOM would simply bypass the board and have the treasury secretary sign the deal on the board's behalf. The MTL

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privatization is hugely unpopular, so Mutharika may be secretly relieved to have the sale stalled, which in Malawi

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can easily become a permanent condition.  
GILMOUR